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**FISCAL IMPACT STATEMENT**

**LS 6235**

**BILL NUMBER:** HB 1233

**NOTE PREPARED:** Nov 18, 2002

**BILL AMENDED:**

**SUBJECT:** Charitable Contribution Deduction.

**FIRST AUTHOR:** Rep. Duncan

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill allows a taxpayer other than a corporation to take an Adjusted Gross Income (AGI) Tax deduction for charitable contributions in an amount equal to the lesser of: (1) the amount of the charitable contribution; or (2) \$5,000 for a single return or \$10,000 for a joint return. The bill also provides that a taxpayer may not claim the deduction if the taxpayer itemizes the contribution for federal tax purposes.

**Effective Date:** January 1, 2004.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. In addition, the administrative impact on the DOR could include: (1) establishing requirements for a submission of proof of a taxpayer's charitable contributions with the AGI Tax return; and (2) audit checks to ensure that taxpayers claiming the state charitable contribution deduction also are not claiming the federal charitable contribution deduction. The expenses relating to these administrative requirements presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state AGI Tax liabilities of individual taxpayers who make charitable contributions and don't claim the itemized charitable contribution deduction for purposes of the federal Income Tax. The revenue loss due to this bill could potentially total about \$18.5 M to \$24.0 M in FY 2005 depending upon whether charitable contributions in upcoming years grow at rates similar to recent historic growth rates. Assuming growth in contributions similar to that observed in recent years, the upper bound could increase to approximately \$26.2 M in FY 2006 and \$28.2 M in FY 2007.

*Background:* The bill creates an AGI Tax deduction for individual taxpayers who make charitable contributions during the tax year, but don't claim the itemized deduction for charitable contributions under the federal Income Tax. Under the bill, the deduction is equal to the lesser of: (1) the total amount of charitable contributions paid by the taxpayer during the taxable year; or (2) \$5,000 for single tax filers and \$10,000 for joint tax filers.

According to IRS tax data, 807,177 federal taxpayers from Indiana claimed itemized deductions in 1999 (the latest year for which data is available), with a total of 672,094 claiming the charitable contribution deduction. In the same year, approximately 2.93 M individual AGI Tax returns were filed with the state of Indiana. It is assumed that taxpayers who itemize for federal income tax purposes would, in the future, claim the federal charitable contribution deduction since they would likely derive a greater benefit from the federal deduction than from the proposed state deduction. Given recent growth trends in federal itemizers (3.66% annually since 1991) and in individual AGI tax filers (1.47% annually since 1991), it is estimated that about 2.1 M AGI tax filers could make use of the state charitable contribution deduction in tax years 2004 through 2006.

The loss estimates are based on tax and charitable contribution data available from the Internal Revenue Service (IRS) and the Congressional Joint Committee on Taxation (JTC). Indiana taxpayers deducted a total of \$2,121.5 M in charitable contributions for federal income tax purposes in 1999 (the latest year in which data is available). The contribution deduction grew at an annual rate of 9.15% from 1991 to 1999. The lower range loss estimate assumes this rate of growth in 2000 and 2001, but assumes no year-to-year growth thereafter due to uncertainty as to the level of charitable giving in the near future. The higher range loss estimates assume 9.15% annual growth in charitable giving through 2006. These estimates are also predicated on an assumed share of deducted charitable contributions to total charitable contributions. Nationally, total contributions deducted for federal income tax purposes represent, on average, about 82.3% of total charitable contributions. (This is the average share since 1997.) This suggests that charitable contributions of non-itemizers could potentially range from \$543.0 M to \$706.0 M in 2004; \$543.0 M to \$770.6 M in 2005; and \$543.0 M to \$841.1 M in 2006. Since the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Thus, the revenue loss from the deduction could potentially range from \$18.5 M to \$24.0 M in FY 2005; with the higher bound increasing to \$26.2 M in FY 2006 and \$28.6 M in FY 2007. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

It is important to note that the actual loss from the deduction could increase to the extent that: (1) the deduction encourages non-itemizers to increase charitable giving above the level that would otherwise occur; and (2) itemizers over-reported charitable giving for purposes of the federal charitable contribution deduction. The above estimates do not account for any behavioral change due to the reduction in the cost of giving that non-itemizers would experience. On the latter point, since non-itemizer contribution estimates are imputed from charitable contributions reported by itemizers, any over-reporting by itemizers would result in an underestimate of non-itemizer contributions. The extent of over-reporting charitable contributions is unknown.

#### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Joint Committee on Taxation, *Description of Revenue Provisions Contained in the President's Fiscal Year 2003 Budget Proposal* (JCS-3-02), March 18, 2002. Internal Revenue Service, *Statistics on Income*, Spring 1993-Spring 2001. Independent Sector, *Giving and Volunteering in the United States*, 1987-2001 surveys.

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